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AUTHOR	McLure, William P.
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ABSTRACT

This paper discusses some of the questions and issues implied in the California Serrano vs Priest decision. Note is made that if courts adopt a strict definition of uniformity as a criterion of equality, States may have to abandon local taxes and establish systems of full State funding plus federal aids. On the other hand, if courts adopt dynamic criteria of equalization, with some tolerance between the highest and lowest expenditure per unit of comparable need, States might, with some reform, retain local-State-federal participation. The author indicates that federal general aid to education will become increasingly important in the future. (JF)

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Chief Justice Wright, The California Supreme Court, And School Finance; Has the 14th Done It Again?

Comments by

William P. McLure, Director

Bureau of Educational Research
and
Professor of Educational Administration

College of Education

University of Illinois, Urbana-Champaign

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The surprise of this (Serrano vs. Priest) decision is not in the substance or principles enunciated, but the imminence of reality that these principles may become fully operational in the near future.

Many of us have argued for years for greater equalization of resources per pupil to insure greater equalization of educational opportunity. Also, we have argued for greater equalization of tax burden upon taxpayers. There are the two principles proclaimed in this California decision. To implement them the state must utilize the total wealth of the state rather than the wealth of the local district which largely reflects the "wealth of the child's parents and neighbors," and in turn the kind of education that will be provided for him.

This decision, aside from the legal question under the 14th Amendment, undoubtedly reflects the growing consciousness of the American people. The decision emphasizes the principle that education is a fundamental right of every individual.

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The state has been accorded the legal responsibility for education. This decision not only reaffirms that principle but goes further and declares that the state has a compelling interest in education which it must meet.

Unlike the decision of McInnis vs. Ogilvie, the California Court brushed aside the question of judicial standards for "strict scrutiny" of the financing system to determine the degree of equalization which will insure each individual "the equal protection of the laws."

I shall now present some of the specific propositions involved in questions and issues implied in this decision.

1. Equalization of opportunity is a concept which will require operational definitions and procedures to: (1) diagnosis of individual needs for fullest development, (2) prescription of educational conditions, programs, and activities of equal quality among schools to meet those needs, and (3) provision of adequate financial resources to insure programs, conditions, and facilities of equal quality.

   This process leads to unequal expenditures of funds on each pupil. But since our knowledge is inadequate to maintain a system of accounting of what is spent on each pupil we must resort to averaging among groups. At present we can identify certain groups such as handicapped pupils, early childhood groups, and vocational fields of instruction where the incidence of need

involves disproportionate numbers of pupils in some districts. Procedures to identify cost differentials for some five or six special groups can be established--and in fact improved over present ones--to provide reasonable units of expenditure that will result in defensible equality of educational standards and quality.

2. More is involved than merely equalizing financial resources. Programs, teaching talent, environmental conditions for learning, facilities, and other dependent variables must be equalized. In some states much reorganization of school districts and schools is a basic requisite.

3. If the courts adopt a strict definition of uniformity as a criterion of equality, states may have to abandon local taxes and establish systems of full-state funding plus federal aids. Local fiscal leeway would have to be abandoned. Some local leeway in administration and control might be preserved, though most students of education fear the contrary. They believe that highly centralized, bureaucratic systems would develop similar to New Brunswick, Australia, France, and some others.

4. If the courts adopt a dynamic criterion of equalization, with some tolerance between the highest and lowest expenditure per unit of comparable need, states might reform their finance and structural systems and retain

local-state-federal participation, with viable responsibility at each level.

I shall illustrate what I mean with two charts. These charts represent the distribution of K-12 districts in Illinois in 1967-68 on local assessed valuation per pupil unit in use at that time. I chose that year because personal income data for each school district were available from the National Educational Finance Project. Thus, I could combine two major tax bases to illustrate most of the state's taxable wealth. Corporate income and general sales tax bases are excluded since these are not identifiable by school districts.

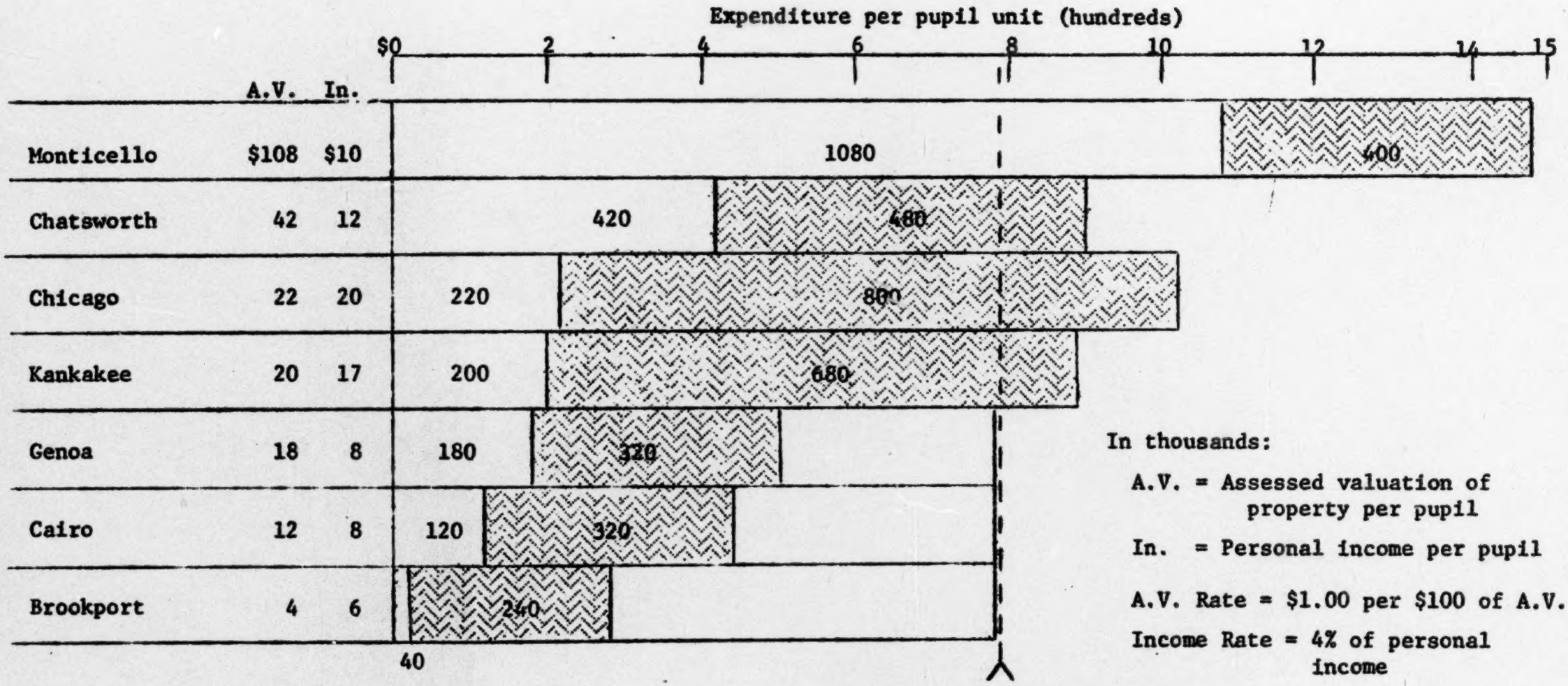
Chart 1 shows how the state could equalize taxes on property and income to achieve an expenditure of $786 per pupil unit in each district. This would require levying (for that year) a property tax of $1.00 per $100 of equalized assessed valuation and a personal income tax of 4 percent. Note that Monticello, with $108,000 of assessed valuation per pupil unit, would be required to raise $1,080. It would retain only $786. The remainder, $294 plus the $400 from personal income would revert to the state treasury for equalization of Genoa, Cairo, and Brookport. The demand for equalization of tax burden would require property taxpayers in Monticello to carry their fair share of this tax, namely $1.00.

Note that the combination of property tax and income tax yields more than $786 in Chatsworth, Chicago, and Kankakee. These surpluses, amounting to $1136, would be used for equalization of all districts at $786 per pupil unit.

Chart 1

EQUALIZED STATE-LOCAL SHARING:

RESOURCE EQUALIZATION



In thousands:

A.V. = Assessed valuation of property per pupil

In. = Personal income per pupil

A.V. Rate = $1.00 per $100 of A.V.

Income Rate = 4% of personal income

A.V. and Income Data: 1967-68

Now, the property tax of $1.00 could be either a state mandated local tax or a state property tax. The personal income tax would be state administered. The traditional interpretation of this equalization model would classify all of this aid as "equalization" aid. While this is correct, it is well to point out that most of the income tax is collected from the district and returned to the original source. The only inter-district equalization is the amount of $1136 from the four wealthiest districts. This is only 35 percent of the state-collected income tax and 21 percent of the total equalized expenditure of $786 per pupil unit.

Chart 2 illustrates a small supplement of "local leeway" tax. Assume that the local districts had a leeway of 50 cents per $100 of assessed valuation. If all districts taxed to the limit the range would be from $1326 to $806 per pupil. This is a ratio of 1.6 to 1.0, an amount that would be subject to evaluation by the court's definition of equalization.

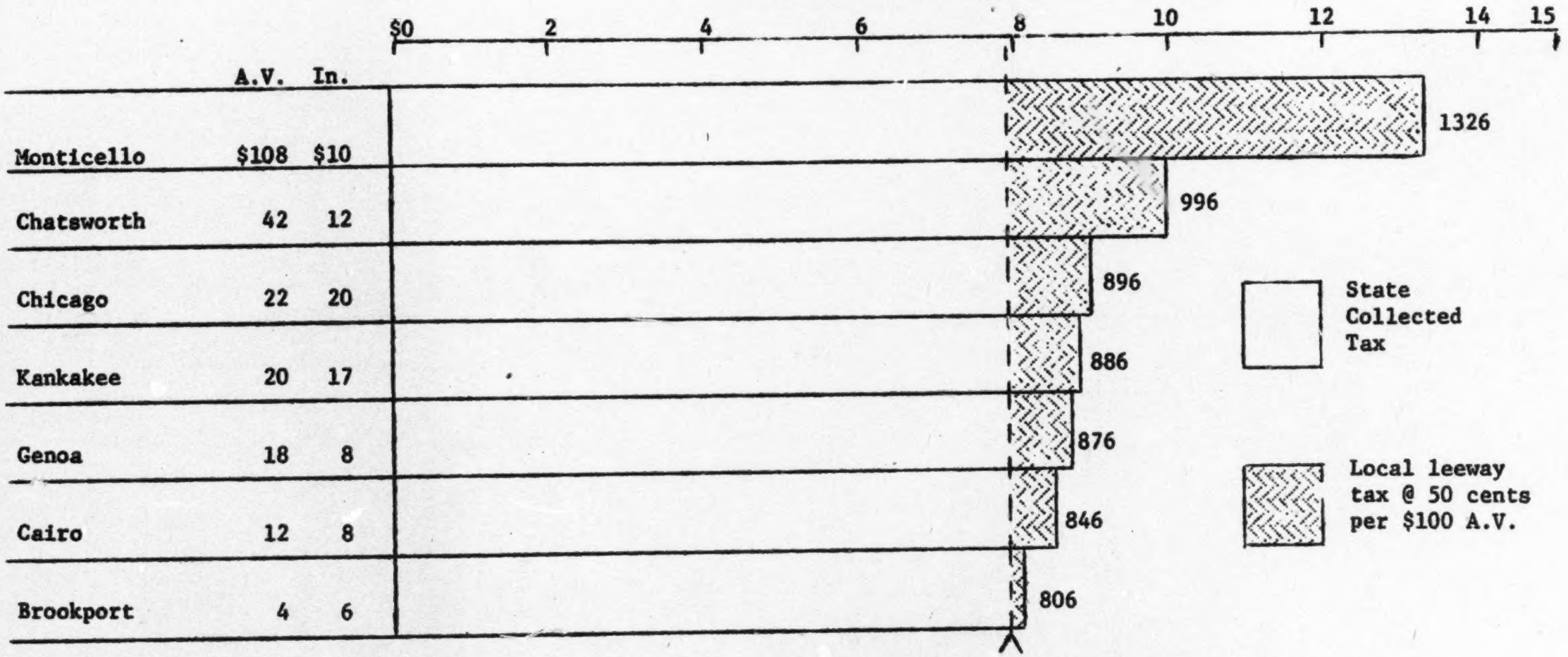
If this leeway were coupled with the same equalization schedule as the foundation, the districts could reach a second equalization of $1179 per pupil, with a repetition of one-half the respective tax efforts of the $786 foundation.

So, the extent and nature of leeway, if any, will depend on the variance in expenditure per unit to be acceptable to the courts.

Chart 2

EQUALIZED STATE-LOCAL SHARING:

RESOURCE EQUALIZATION PLUS LOCAL SUPPLEMENT



$788 Potential Foundation

1967-68 Data

In thousands: A.V. (Assessed valuation of property per pupil unit)

In. (Personal income per pupil unit)

Summary

Some further comments with respect to the implications of the Serrano v. Priest decision are as follows:

1. The so-called state and local taxes may become far more integral in the future than they have been in the past.
2. Primary determination of expenditures may be shifted to state central governments.
3. Decisions on priorities and emphases of programs, salary schedules, and other basic determinants of education may be shifted to the state level.
4. Federal general aid to education, either through revenue sharing or grants-in-aid, will become increasingly important in the future. Those of us who conducted the National Educational Finance Project concluded before the California case of Serrano v. Priest that the "total wealth" (tax capacity) of the nation should be called upon to contribute from 22 to 30 percent of the total revenues of public elementary and secondary schools to provide adequate equalization of support <u>within</u> and <u>among</u> states.